

## UNIFORM ACCOUNTING PROCEDURES

### DISPOSAL OF OBSOLETE INVENTORY

Obsolete inventory can be disposed of in various ways. Every effort should be made to sell the items at an amount equal to the cost recorded in the inventory records. Some vendors may buy it back or trade for parts that can be used on newer equipment. Another way of disposing of obsolete inventory is to sell it to whomever buys the related equipment at the time of disposal.

If the book value cannot be recovered, the obsolete inventory can be written off to the inventory adjustment account 791 in the indirect equipment account group.

<u>Activity/ Account #</u>	<u>Account Name/Explanation</u>	<u>Debit</u>	<u>Credit</u>
511-791	Inventory Adjustments	XXXX	
110-001	Parts Inventory		XXXX

If the book value is partially recovered, the above entry would include a debit to the cash account for the amount received and a debit entry to the revenue account 693.03 -- Gain or Loss on Disposal of Inventory.

<u>Activity/ Account #</u>	<u>Account Name/Explanation</u>	<u>Debit</u>	<u>Credit</u>
001	Cash	XXXX	
693.03	Gain/Loss on Disposal of Inventory	XXXX	
110-001	Parts Inventory		XXXX

In certain situations, the cash received may be more than the book value recorded in the inventory records. In this instance, the entry would be as follows:

<u>Activity/ Account #</u>	<u>Account Name/Explanation</u>	<u>Debit</u>	<u>Credit</u>
001	Cash	XXXX	
693.03	Gain/Loss on Disposal of Inventory		XXXX
110-001	Parts Inventory		XXXX

If obsolete inventory is traded for current parts, record these new parts at the same book value as the item(s) traded in.

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If the related equipment is sold and the inventory is included as part of the sales price, the inventory account should be credited for the full amount of the book value on record for these items before the gain or loss is figured on the sale of the equipment.

<b><u>Activity/ Account #</u></b>	<b><u>Account Name/Explanation</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
001	Cash	XXXX	
110-001	Parts Inventory		XXXX
693.01	Gain/Loss on Disposal of Road Equipment		XXXX
689	Equipment Retirement (if applicable)		XXXX